

# Services Sector

*India's dynamic services sector has grown rapidly in the last decade with almost 72.4 per cent of the growth in India's GDP in 2014-15 coming from this sector. Unlike other developing economies, the Indian growth story has been led by services-sector growth which is now in double digits.*

## INTERNATIONAL COMPARISON

### World Services GDP

7.2 In 2013 in the US\$ 75.6 trillion world gross domestic product (GDP) (at current prices) the share of services improved marginally to 66.0 per cent while growth rate (at constant prices) decelerated marginally to 2.1 per cent over 2012. However, in the last twelve years, the share of services in world GDP has declined by 2.8 percentage points (pp). The US ranks first in services GDP as well as in overall GDP, with China and Japan a distant second and third. Among the world's top 15 countries in terms of GDP, India ranked 10<sup>th</sup> in terms of overall GDP and 11<sup>th</sup> in terms of services GDP in 2013. However, among these top fifteen nations, in the period 2001-13, maximum increase in services share to GDP was recorded by Spain (8.6 pp) followed by India (5.7 pp) and China (5.6 pp). During this period, with a compound annual growth rate (CAGR) of 8.7 per cent, India had the second fastest growing services sector, just below China's 10.7 per cent. Among these top fifteen countries, only China's share of services in its total GDP is less than 50 per cent (Table 7.1).

### World Services Employment

7.3 As per the International Labour Organization's (ILO) Global Employment Trends

2014, services accounted for more than half of total global employment growth of 1.4 per cent in 2013 over 2012. The share of services in world income declined from 68.8 per cent in 2001 to 66 per cent in 2013, while its share in employment increased from 39.1 per cent to 45.1 per cent. For the top fifteen countries, except India and China, the shares of both services GDP and services employment are high and close to each other. India's services sector has a high share in income and relatively low share in employment, while in China, the shares of both services income and services employment are relatively low. But in both these countries, the shares of services in both GDP and employment have increased in the last twelve years.

### World Services Trade

7.4 During 2001-13 the CAGR of world commercial services exports was 10 per cent, with India at the top among the top fifteen largest economies at 20.1 per cent followed by China at 16.5 per cent. In 2013, the US\$ 4.6 trillion world commercial services exports grew by 5.6 per cent. Services exports of the United States, the largest exporter of commercial services, grew by 5 per cent while they decelerated for China to 7.5 per cent and India to 3.6 per cent due to decline in exports of transport services by 3 per cent in both countries. Services imports of India fell by 2.7 per cent and China's grew by 17.6 per cent.

**Table 7.1 : Performance in Services: International Comparison**

Country	Rank in GDP		Services growth rate			Share of services				Services export growth				
	Over all	Ser- vices	(per cent)		CAGR	in		in		in total		(per cent)		CAGR
			Y-o-Y	2001-13	2001	2013	2001	2013	2001	2013	2001	2013	Y-o-Y	2001-13
US	1	1	2.1	1.7	1.8	77.6	78.6	75.0	81.2	27.2	29.5	-3.6	5.0	7.7
China	2	2	10.3	8.3	10.7	40.5	46.1	27.7	35.7	11.0	8.5	9.1	7.5	16.5
Japan	3	3	1.3	0.8	0.7	69.0	72.4	63.9	69.7	13.6	16.9	-6.9	2.0	7.1
Germany	4	4	3.1	0.1	0.9	68.8	68.4	64.6	70.2	12.8	16.5	5.6	7.8	10.7
France	5	5	2.0	0.6	1.4	74.7	78.5	69.9	74.9	19.8	29.0	-0.5	9.7	9.5
UK	6	6	3.4	2.0	2.2	73.6	79.2	73.8	78.9	30.1	35.1	-0.8	1.5	7.9
Brazil	7	8	1.8	2.1	3.5	67.1	69.4	59.4	62.7	13.0	13.4	-2.7	-1.7	12.9
Italy	8	7	2.3	-1.3	0.2	70.5	74.4	63.1	68.5	18.9	17.6	2.1	6.1	5.6
Russia	9	10	3.3	2.0	5.1	55.6	59.8	58.6	62.3	9.9	11.0	17.3	11.2	4.0
India	10	11	7.5	6.7	8.7	51.3	57.0	24.0	28.1	27.9	32.5	4.8	3.6	20.1
Canada	11	9	3.5	1.8	2.5	65.9	70.4	74.7	76.5	12.7	14.6	-3.6	0.0	6.2
Australia	12	12	3.7	2.5	3.0	69.9	69.7	74.2	75.5	21.8	17.1	-8.9	-0.1	9.4
Spain	13	13	4.0	-1.1	2.3	65.3	73.9	62.0	74.9	32.2	31.5	6.0	6.1	8.4
South Korea	14	15	5.0	2.9	3.7	59.0	59.1	62.6	76.4	16.3	16.6	-4.9	1.3	15.7
Mexico	15	14	1.1	2.4	3.2	57.7	58.9	56.1	61.9	7.2	4.9	-7.5	21.3	11.8
<b>World</b>			<b>2.5</b>	<b>2.1</b>	<b>2.5</b>	<b>68.8</b>	<b>66.0</b>	<b>39.1</b>	<b>45.1</b>	<b>19.4</b>	<b>19.8</b>	<b>0.1</b>	<b>5.6</b>	<b>9.9</b>

*Source :* Computed from UN National Accounts Statistics for GDP, World Bank and ILO database for employment and WTO database for Services Trade.

*Notes :* Rank and share are based on current prices (2013); growth rates are based on constant prices (US\$); construction sector is excluded in services GDP; for employment data in 2013, the available data of nearest preceding years is used.

7.5 In Q1, Q2 and Q3 of 2014, world services exports grew by 5.7 per cent, 6.4 per cent, and 4.7 per cent respectively. India's services export growth was at 7.4 per cent in Q1 but decelerated to 2.8 per cent and 2.7 per cent in Q2 and Q3. Its services import growth fell by 3.9 per cent in Q1 but grew by 0.3 per cent and 2.7 per cent in Q2 and Q3 respectively.

### Foreign Direct Investment in World Services Sector

7.6 In 2014, global foreign direct investment (FDI) inflows declined by 8 per cent to an estimated US\$ 1.3 trillion, due to the fragility of the global economy, policy uncertainty, and geopolitical risks as per the United Nations Conference on Trade and Development (UNCTAD). China became the world's largest recipient of FDI, with an increase of 3 per cent driven by FDI in the services sector while FDI in manufacturing fell. India's FDI rose by around 26 per cent to an estimated US\$ 35 billion also due

to inflows in the top services sector as corroborated by the Indian data.

### INDIA'S SERVICES SECTOR

7.7 Services in India are emerging as a prominent sector in terms of contribution to national and states' incomes, trade flows, FDI inflows, and employment.

### Services GDP and Gross Capital Formation

7.8 As per the new method of India's National Accounts Statistics, the services sector accounting for 51.3 per cent of India's gross value added (GVA) at basic prices (current prices) in 2013-14, grew by 9.1 per cent compared to 6.6 per cent total GVA growth and 6.9 per cent GDP growth at market prices. Including construction, a borderline service, the services share is 59.6 per cent and growth is 8.1 per cent (Table 7.2).

7.9 Interestingly, the services sector has the highest share (54.6 per cent) in the gross capital

**Table 7.2 : Share and Growth of India's Services Sector (GVA at basic price)**

	( per cent)				
	GVA			GCF	
	2012-13	2013-14	2014-15 <sup>#</sup>	2012-13	2013-14
<b>Total Services</b>	<b>50.0 (8.0)</b>	<b>51.3 (9.1)</b>	<b>53.0(10.6)</b>	<b>53.8 (-1.9)</b>	<b>54.6 (3.1)</b>
Trade, repair, hotels, and restaurants	11.3 (10.3)	12.0(13.3)	18.7 (8.4)*	9.6 (46.9)	11.5 (21.2)
<i>Trade &amp; repair services</i>	10.2 (11.1)	11.0(14.3)		8.6 (59.9)	10.6 (23.5)
<i>Hotels &amp; restaurants</i>	1.1 (3.3)	1.1 (3.9)		0.9 (-15.6)	0.9 (-0.3)
Transport, storage, communication & services related to broadcasting (of which)	6.6 (8.4)	6.6 (7.3)		6.8 (-4.1)	5.5(-16.4)
<i>Railways</i>	0.8 (18.0)	0.8 (9.3)		1.1 (11.0)	1.2 (5.6)
<i>Road transport</i>	3.3 (7.5)	3.2 (5.0)		2.5 (-16.6)	1.6(-35.8)
<i>Air transport</i>	0.1 (-5.9)	0.1 (6.0)		0.2 (-11.4)	0.0(-72.4)
Financial services	5.9 (6.7)	5.8 (6.4)	20.9(13.7) <sup>^</sup>	1.3 (-9.8)	1.1(-10.6)
Real estate, ownership of dwelling & professional services	13.6 (9.8)	14.0 (8.5)		22.7 (-15.1)	20.1(-10.2)
Public administration and defence	6.0 (3.2)	6.0 (4.9)	13.4 (9.0) <sup>@</sup>	8.5 (1.7)	10.6 (26.3)
Other services	6.6 (6.2)	6.9(10.7)		4.9 (4.2)	5.8 (20.3)
Construction	8.7 (-4.3)	8.3 (2.5)	8.0 (4.5)	5.8 (-11.5)	5.4 (-4.4)
<b>Total Services (+ construction)</b>	<b>58.7 (6.0)</b>	<b>59.6 (8.1)</b>	<b>61.0 (7.1)</b>	<b>59.6 (-3.0)</b>	<b>60.0 (2.4)</b>
<b>TOTAL GVA/GFC</b>	<b>100.0 (4.9)</b>	<b>100.0 (6.6)</b>	<b>100.0 (7.5)</b>	<b>100.0 (-0.7)</b>	<b>100.0 (1.4)</b>
<b>GDP (market price constant 2011-12)</b>	<b>(5.1)</b>	<b>(6.9)</b>	<b>(7.4)</b>		

Source : Central Statistics Office (CSO).

Notes : Shares are in current prices and growth in constant 2011-12 prices; Figures in parentheses indicate growth rate; # AE for 2014-15.\* Also includes transport, communication and services related to broadcast, ^ Also includes real estate and professional services, @ Also includes other services. This is based on new method followed by the CSO.

formation (GCF) of ₹ 35.4 lakhs in 2013-14. This is owing to the GCF in real estate, ownership of dwelling and professional services at 20.1 per cent, though the share has fallen in the last two years, followed by trade and repair services (10.6 per cent) and public administration and defence (10.6 per cent) where there is improvement in shares. The growth rate of services GCF at 3.1 per cent has also been higher than the total GCF growth of 1.4 per cent. Infact, the positive GCF growth in services led to positive growth in total GCF as GCF growth in agriculture and industry was negative at - 0.3 per cent and - 0.6 per cent respectively. GCF growth in manufacturing was even more negative at - 5.4 per cent.

7.10 As per the old method of estimating GDP at factor cost (GDP at FC), the services sector accounting for 57 per cent of GDP grew by 6.8 per cent in 2013-14, marginally lower than in 2012-13. This is mainly due to a fall in the growth rate of the combined category of trade, hotels, and restaurants and transport, storage, and communications to 3.0 per cent from 5.1 per cent in 2012-13, and in spite of robust growth of financing, insurance, real estate, and business services at 12.9 per cent. The somewhat differing results in services growth under the two methods are due to conceptual changes of GDP at FC to basic price and adoption of latest data sources. There was also drastic decline in services share under the new method. The major change took

place in the share of trade, repair, hotels, and restaurants from 17.2 per cent in 2012-13 using the old factor cost method to 11.3 per cent using the new basic price method. This is because trade carried out by manufacturing companies has now been shifted to manufacturing from trade and the data on unorganized trade enterprises has been updated with the 2010-11 survey instead of the 1999-2000 survey. However, this sector's growth was much higher using the new method than under the old method.

7.11 As per the Advance Estimates (AE) in 2014-15, growth of the services sector accelerated further to 10.6 per cent as compared to 9.1 per cent in 2013-14. This is mainly due to growth acceleration in financial, real estate, and professional services to 13.7 per cent from 7.9 per cent and public administration, defence, and other services to 9.0 per cent from 7.9 per cent in the previous year. There was also good growth in trade, hotels, transport, communication, and related services at 8.4 per cent in 2014-15 though it was lower than the 11.1 per cent growth in 2013-14.

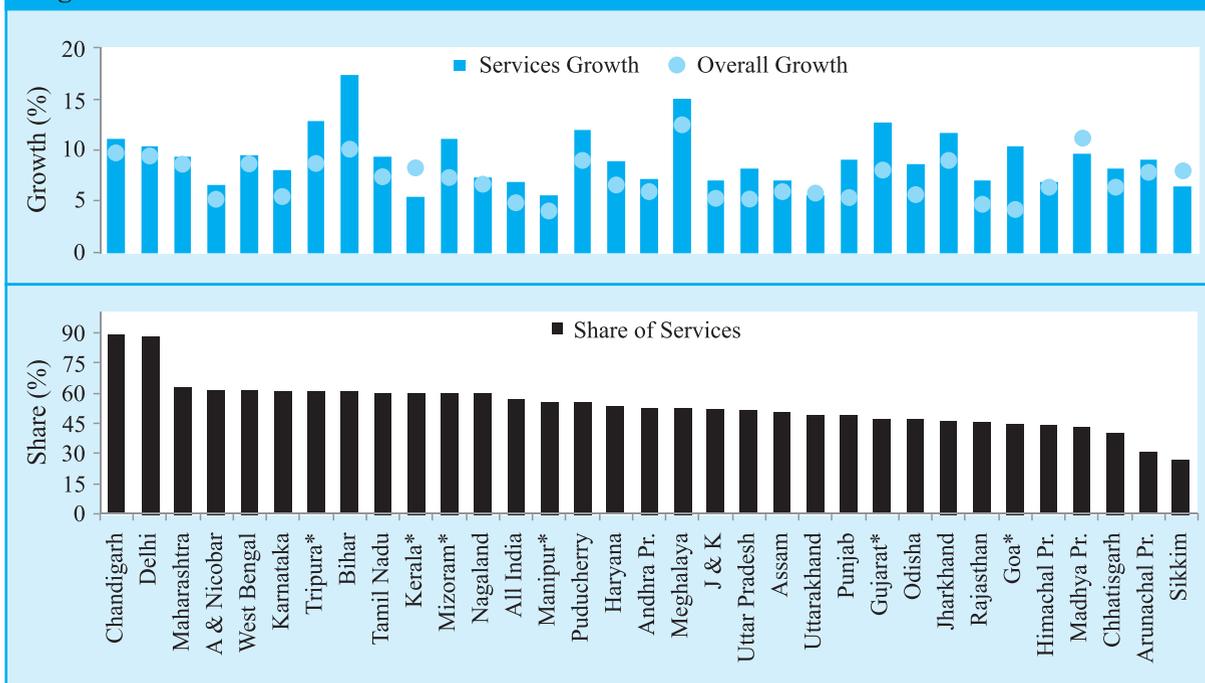
## State-wise Comparison of Services

7.12 The services sector is the dominant sector in most states of India with a share of more than 40 per cent in the gross state domestic product (GSDP) in 2013-14 except for Arunachal Pradesh and Sikkim (Figure 7.1). Chandigarh is at the top with a share of 88.4 per cent followed by Delhi with 87.7 per cent. The major services in most of the states with high share are trade, hotels, and restaurants followed by real estate, ownership of dwellings and business services. Banking and insurance has an important share only in a few states/ union territories (UT) like Delhi, Maharashtra, and Chandigarh. In 2013-14, Bihar had the highest services growth of 17.3 per cent and Uttarakhand the lowest of 5.5 per cent. Bihar has been consistently showing double-digit growth in the services sector in the last five years due to high growth in trade, hotels, and restaurants.

## FDI in India's Services Sector

7.13 The ambiguity in classifying FDI in different activities under the services sector continues. The combined FDI share of financial and non-financial services under services sector, construction

**Figure 7.1: Share and Growth of the Services Sector in 2013-14**



Source : Computed from CSO data.

Note : Share at current prices, growth rate at constant (2004-05) prices;

\* indicates 2012-13 data; Andhra Pradesh-undivided.

**Table 7.3 : FDI Equity Inflows in the Services Sector**

Ranks	Sector	Value (in US \$ million)			Percentage to total	Growth rate	
		2013-14	2014-15 (Apr. Nov.)	Cumulative (Apr. 2000-Nov. 2014)		2013-14	2014-15 (Apr. Nov.)
1	Services sector (financial & non-financial)	2225	1847	41307	17.5	-54.0	24.9
2	Construction development #	1226	703	24009	10.2	-8.0	-20.9
3	Telecommunications *	1307	2472	16635	7.0	329.9	7390.9
4	Computer software & hardware	1126	862	13679	5.8	131.7	62.9
5	Hotel & tourism	486	544	7662	3.2	-85.1	180.4
	<b>Total top five services</b>	<b>6370</b>	<b>6428</b>	<b>103291</b>	<b>43.7</b>	<b>-37.6</b>	<b>105.8</b>
	<b>Total FDI inflows</b>	<b>24299</b>	<b>18884</b>	<b>236465</b>	<b>100</b>	<b>8.4</b>	<b>22.2</b>

*Source* : Based on Department of Industrial Policy and Promotion (DIPP) data.

*Note* : # indicates township, housing, built-up infrastructure; \* indicates radio paging, cellular mobile, basic telephone services.

development, telecommunications, computer hardware and software, and hotels and tourism can be taken as the best estimate of services FDI, though it could include some non-service elements. This share is 43.7 per cent of the cumulative FDI equity inflows during the period April 2000-November 2014. If the shares of some other services or service-related sectors like trading, information and broadcasting, construction (infrastructure) activities, consultancy services, hospital and diagnostic centres, ports, agriculture services, education, air transport including air freight, and retail trading are included, then the total share of cumulative FDI inflows to the services sector would increase to 53.8 per cent. In 2013-14, FDI inflows to the services sector (top five sectors including construction) declined sharply by 37.6 per cent to US\$ 6.4 billion, though overall FDI inflows grew by 8.4 per cent. However, during 2014-15 (April to November), the FDI inflows to services grew by 105.8 per cent compared to 22.2 per cent growth in overall FDI inflows. The total FDI inflows to the top five services in the first eight months of this year are higher than for the whole of 2013-14 owing to major inflows in telecommunications (Table 7.3).

### India's Services Trade

7.14 India's share in global exports of commercial services increased to 3.2 per cent in 2013 from 1.2 per cent in 2000. Its ranking among

the leading exporters in 2013 was sixth. After witnessing high growth during 2002-03 to 2008-09 with a CAGR of 31.2 per cent, and a pick up and good growth in 2010-11 and 2011-12 in the aftermath of the global financial crisis, export growth of services decelerated in 2012-13 to 3.4 per cent. In 2013-14 services exports grew by 4.0 per cent to US\$ 151.5 billion and services imports declined by 2.8 per cent to US\$ 78.5 billion resulting in net services of US\$ 73.0 billion with 12.4 per cent growth. In the first half of 2014-15, services exports grew by 3.7 per cent to US\$ 75.9 billion and import of services grew by 5.0 per cent to US\$ 39.9 billion, resulting in net services growth of only 2.4 per cent (Table 7.4). Net services has been a major source of financing India's trade deficit in recent years. Surplus on account of services exports financed 49.4 per cent and 49.3 per cent of merchandise trade deficit in 2013-14 and H1 of 2014-15 respectively. Two recent developments in India's exports sector are the rising foreign value added content and services value added content (Box 7.1).

7.15 India's major services exports in 2013-14 are computer services (45.8 per cent share); other business services (18.8 per cent share) including professional and consulting services (10.2 per cent share), technical and trade-related services (7.8 per cent share) and R & D services (0.8 per

**Table 7.4 : Export Performance of Major Services**

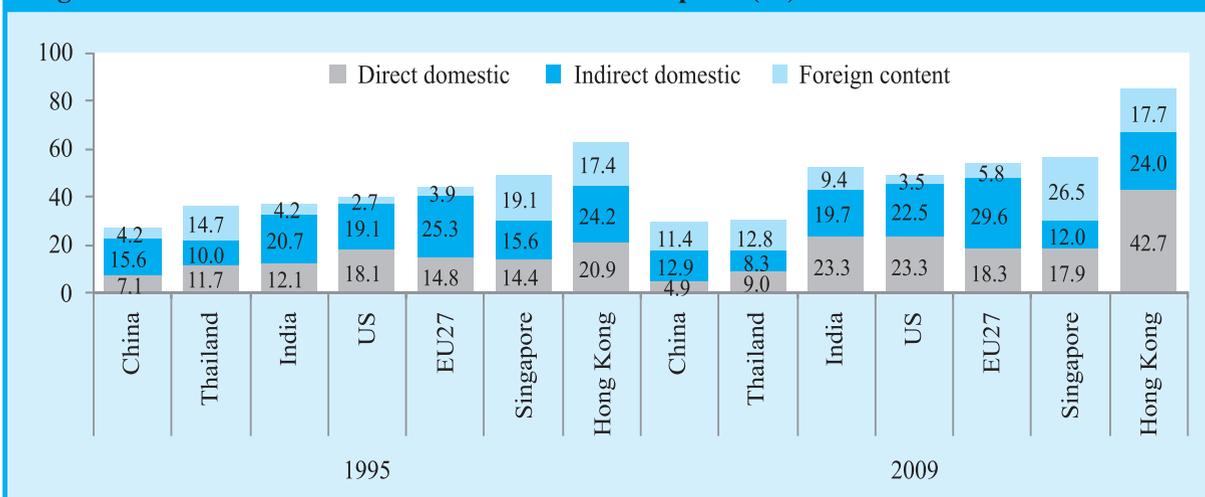
	Value (US\$ bn) 2013-14	Share (per cent) 2013-14	Export growth rate (per cent)			
			2012- 13	2013- 14	2013- 14 H1	2014- 15 H1
<b>Total services exports</b>	<b>151.5</b>	<b>100</b>	<b>3.4</b>	<b>4.0</b>	<b>3.4</b>	<b>3.7</b>
Transport	17.4	11.5	-5.1	0.3	-2.1	8.5
Travel	17.9	11.8	-2.5	-0.4	4.8	18.0
Construction	1.3	0.9	24.9	33.3	37.2	36.0
Financial, insurance, & pension services	8.8	5.8	-16.5	22.2	23.3	-11.8
Telecommunications services	2.4	1.6	2.0	43.0	38.4	-22.2
Computer services	69.4	45.8	5.9	5.4	5.6	5.1
Other business services	28.5	18.8	15.8	0.1	-0.1	-3.9
<i>R &amp; D services</i>	1.1	0.8	17.0	24.0	9.7	6.3
<i>Professional &amp; consulting services</i>	15.5	10.2	26.0	10.4	7.1	-6.7
<i>Technical, trade-related, &amp; others</i>	11.8	7.8	6.8	-12.2	-8.6	-1.4
<b>Net services exports</b>	<b>73.0</b>	<b>—</b>	<b>1.4</b>	<b>12.4</b>	<b>12.6</b>	<b>2.4</b>

Source : RBI's Balance of Payments (BoP) data (BPM-6).

### Box 7.1 : Services GVA Content in India's Exports

As per the Organisation for Economic Cooperation and Development's (OECD) TiVA (trade in value added) data, domestic value added content in India's gross exports was 78 per cent in 2009, a little above the OECD average (76 per cent), but 12 pp lower than in 1995, reflecting increasing fragmentation of production and integration with global value chains. Interestingly, services value added content of India's exports at 52.4 per cent in 2009, is marginally higher than the OECD average (48 per cent). India is fifth highest in terms of services value added content in its exports after Hong Kong, Iceland, Singapore, and EU-27. There is also a 15.4 pp increase over 1995 (Figure 1). This has been driven by increasing direct exports of services and more than doubling of foreign services content of exports also indicating greater integration with global value chains.

**Figure 1: Services Value Added Content of Gross Exports (%)**



A study for the Ministry of Finance, Government of India (GoI) by Indian Council for Research on International Economic Relations (ICRIER) also shows rising share of foreign value added in India's exports. The increase was higher in merchandise exports from 11.2 per cent in 1995 to 25.7 per cent in 2011 than in services exports, where it increased from 6.4 per cent to 8.5 per cent.

Source : Based on OECD and ICRIER reports

cent share); travel (11.8 per cent share); transport (11.5 per cent share); and financial, insurance and pension services (5.8 per cent share). In 2013-14, there was deceleration in export growth of software services to 5.4 per cent, negative growth of - 0.4 per cent in travel, and marginal growth in transport (0.3 per cent) and other business services (0.1 per cent). However, moving in tandem with global exports of financial services, India's exports of financial services registered a high growth of 34.4 per cent. In the first half of 2014-15, export growth decelerated further for computer services (5.1 per cent) and was negative for other business services (- 3.9 per cent) and financial, insurance, and pension services (-11.8 per cent). But growth was robust for travel

(18.0 per cent) with pick up in foreign tourist arrivals (FTAs) and foreign exchange earnings (FEEs) in dollar terms and good for transport (8.5 per cent) due to pick up in India's external trade by 2.5 per cent in H1 of 2014-15 compared to 0.8 per cent in the previous year.

7.16 There are many market access barriers and domestic regulations in India's services sector (see Economic Survey 2012-13 and 2013-14). Given the potential of India's services sector, removal of many of these barriers both domestically and internationally is of vital importance. Services-sector negotiations both at multilateral and bilateral/regional levels are therefore of special significance to India (See Box 7.2).

### **Box 7.2 : WTO Services Negotiations and Bilateral Negotiations including Services Trade**

#### **WTO Negotiations: India's Stand**

- The post Bali work programme has to be within the mandate of the Doha Development Agenda (DDA) and valuable milestones such as the Annex C on 'Services' of the Hong Kong Ministerial Declaration (HKMD) which contains the roadmap for conclusion of the Doha Round.
- India does not support any cherry picking of issues or sectors of interest to certain economies in the name of concluding the Doha Round and the level of ambition across the negotiating pillars including in services would be governed by agriculture.
- Since development is the central theme of the Doha negotiations, commitments in areas of export interest to developing countries and least developed countries (LDCs) is crucial for the success of the round. In the past, India has been dismayed by the negligible progress in Mode 4 offers.
- Preferential treatment for the LDCs in the World Trade Organization (WTO): At the High Level Meeting of the WTO services council on 5 February 2015, discussions were held to operationalize the Bali decision on LDC services waiver. India has been a generous partner for LDCs and offered market access for contractual services suppliers and independent professionals under Mode 4 in sectors like engineering services, integrated engineering services, computer and related services, some important management consulting and project management services, hotel and other lodging services, travel agency, tour operator services and tourist guides conversant in a foreign language, other than English. An exclusive quota of 250, only for tourist guides from LDCs was offered. India has also agreed to waive visa fee for LDC applicants seeking Indian business or employment visas.

#### **Bilateral Agreements: Status**

- India has signed Comprehensive Bilateral Agreements with the Governments of Singapore, South Korea, Japan, and Malaysia. A Free Trade Agreement (FTA) in services and investment was signed with the Association of South East Asian Nations (ASEAN) in September 2014.
- India has joined the Regional Comprehensive Economic Partnership (RCEP) plurilateral negotiations and is continuously engaged in the bilateral FTA negotiations including Trade in Services with Canada, Israel, Thailand, the European Free Trade Association (EFTA), Australia, New Zealand, and the EU. Negotiations with Canada and Australia have not progressed much and modalities for the negotiations are still being discussed. Negotiations with Thailand are at an advanced stage and with EFTA are more or less over. India is also engaged in bilateral trade dialogues with the US under the India-US Trade Policy Forum (TPF), with Australia under the India-Australia Joint Ministerial Commission (JMC), with China under the India-China Working-Group on Services, and with Brazil under the India-Brazil Trade Monitoring Mechanism (TMM).

**Source:** Department of Commerce, Government of India.

**Table 7.5 : Sector-wise Employment Trends (UPS)**

	Absolute number(million)					Employment elasticity			
	(Share in percent given in parentheses)					1993-94 to 1999-00	1999-00 to 2004-05	2004-05 to 2009-10	2009-10 to 2011-12
	1993-94	1999-00	2004-05	2009-10	2011-12				
Agriculture	204.3 (61.1)	214.7 (58.5)	226.8 (54.5)	220.5 (51.6)	204.4 (47.1)	0.3	0.7	-0.2	-0.5
Industry	53.5 (16.0)	61.7 (16.8)	81.0 (19.5)	93.1 (21.8)	106.1 (24.4)	0.4	0.9	0.3	0.9
Services	76.6 (22.9)	90.6 (24.7)	108.0 (26.0)	113.7 (26.6)	123.9 (28.5)	0.3	0.5	0.1	0.5
<i>Trade, hotels, and restaurants</i>	26.8 (8.0)	34.1 (9.3)	46.5 (11.2)	48.4 (11.3)	50.5 (11.6)	0.4	0.8	0.1	0.3
<i>Transport, storage, and communication</i>	11.0 (3.3)	15.0 (4.1)	18.7 (4.5)	19.9 (4.6)	22.8 (5.2)	0.5	0.4	0.1	0.6
<i>Financial, insurance, real estate and business services</i>	3.7 (1.1)	4.8 (1.3)	7.5 (1.8)	9.4 (2.2)	10.7 (2.5)	0.5	1.6	0.4	0.6
<i>Community, social, and personal services</i>	35.1 (10.5)	36.7 (10.0)	35.3 (8.5)	36.1 (8.4)	39.9 (9.2)	0.1	-0.2	0.1	1.1
<b>Total</b>	<b>334.4</b> <b>(100.0)</b>	<b>367.0</b> <b>(100.0)</b>	<b>415.7</b> <b>(100.0)</b>	<b>427.4</b> <b>(100.0)</b>	<b>434.4</b> <b>(100.0)</b>	<b>0.2</b>	<b>0.4</b>	<b>0.1</b>	<b>0.1</b>

Source : Based on data from National Sample Survey Office (NSSO) different round reports and CSO.

Note : Employment elasticity is calculated by CAGR method, Employment elasticity = (CAGR employment) / (CAGR GDP at FC constant 2004-05 prices) for the respective period. UPS- usual principal status

## India's Services Employment

7.17 The pattern of the sectoral share of employment has changed over the last two decades with the share of agriculture falling and of industry and services rising steadily. Services share in employment at 28.5 per cent in 2011-12 is higher than in industry at 24.4 per cent. Among the different services sectors, from 1993-94 to 2011-12, there was continuous increase in employment share in trade, hotels, and restaurants; transport, storage, and communication; and financial, insurance, real estate and business services. Employment share in community, social, and personal services has fallen continuously except in 2011-12 when there was an increase compared to 2009-10 and 2004-05. Employment elasticity has increased for both services and industry in 2009-10 to 2011-12 compared to 2004-05 to 2009-10, though industry had relatively higher employment elasticity. Among

services, employment elasticity was the highest in 'financial, insurance, real estate, and business services' and 'transport, storage, and communication' (Table 7.5).

## MAJOR SERVICES: OVERALL PERFORMANCE

7.18 Some available indicators of the different services in India for 2014-15 show reasonably good performance of tourism, telecom, aviation, and railways (Table 7.6). Estimates of the Centre for Monitoring Indian Economy (CMIE) derived from limited firm-level data indicates improved performance in retail trading, aviation, telecom, and transport logistics. Other estimates like the HSBC's services PMI (Purchasing Managers Index) data indicate improvement in services sector growth in the current year as the reading was above 50 in all months since May 2014 and it was at 52.6 in November 2014, 51.1 in December 2014 and 52.4 in January 2015.

**Table 7.6 : Performance of India's Services Sector: Some Indicators**

Sector	Indicators	Unit	Period		
			2009-10	2013-14	2014-15
Aviation	Airline passengers (domestic and international)*	Million	77.4	103.7	(68.0)74.9 <sup>#</sup>
Telecom	Telecom connections (wireline and wireless) <sup>b</sup>	Million	621.3	933.0	(910.1)964.2 <sup>#</sup>
Tourism	Foreign tourist arrivals <sup>a</sup>	Million	5.2	7.0	7.5
	Foreign exchange earnings from tourist arrivals <sup>a</sup>	US \$ billion	11.1	18.4	19.7
Shipping	Gross tonnage of Indian shipping <sup>b</sup>	Million GT	9.7	10.5	10.3 <sup>@</sup>
	No. of ships <sup>b</sup>	Numbers	1003	1213	1209 <sup>@</sup>
Ports	Port traffic	Million tonnes	850.0	975.7	(725.9)775.2 <sup>@</sup>
Railways	Freight traffic by railways <sup>c</sup>	Million tonnes	887.8	1051.6	(767.2)806.4 <sup>@</sup>
	Net tonne kilometres of railways <sup>c</sup>	Billion	600.5	665.8	(478.9)506.9 <sup>@</sup>
Storage	Storage capacity	Lakh MT	106.0	105.6	103.1 <sup>#</sup>
	No. of warehouses	Numbers	487	471	470 <sup>#</sup>

*Sources:* Telecom Regulatory Authority of India (TRAI), Ministry of Tourism, Ministry of Shipping, Ministry of Railways, Directorate General of Civil Aviation, Central Warehousing Corporation.

*Notes :* <sup>a</sup> calendar years, for example 2009-10 for 2009; <sup>b</sup> As on 31 March of ensuing financial year; <sup>c</sup> data from 2009-10 to 2012-13 is on carried basis, while that for 2013-14 and 2014-15 is on originating basis; \* foreign airlines included for international passenger; <sup>#</sup> data is upto November 2014; <sup>@</sup> data is upto December 2014; data in parentheses are for same period of 2013-14. GT=gross tonnage; MT=metric tonnes.

## MAJOR SERVICES: SECTOR-WISE PERFORMANCE AND SOME RECENT POLICIES

7.19 This section includes some of the important commercial services for India based on their significance in terms of GDP, employment, exports, and future prospects. Some important services covered in other chapters have been excluded to avoid duplication.

### Tourism

7.20 According to the World Travel and Tourism Council (WTTC), the US\$ 7 trillion travel and tourism sector's contribution to world GDP increased in 2013 to 9.5 per cent, creating 4.7 million new jobs. This resulted in total employment in this sector of nearly 266 million, that is one in eleven jobs in the world. This sector is estimated to grow by 4.3 per cent in 2014 and generate 6.5 million new jobs. The latest World Tourism Barometer of the United Nation's World Tourism Organization (UNWTO) also shows that international tourist arrivals reached 1.1 billion in

2014, a 4.7 per cent increase over the previous year and for 2015 the forecast is a 3 to 4 per cent increase. France has the highest share in International tourist arrivals (ITAs) and the US in International tourism receipts (ITRs) in 2013. India's share in ITAs is a paltry 0.6 per cent compared to 7.8 per cent in France and 6.4 per cent in the US. Even Vietnam and Indonesia have higher shares than India. However, in terms of ITRs, India's share at 1.5 per cent is better than those of Vietnam and Indonesia though it is way below the share of the US at 14.5 per cent. Even in terms of growth, countries like Vietnam, Indonesia, Thailand and Turkey are ahead of India in 2013 (Table 7.7).

7.21 In India's National Accounts Statistics there is no separate heading for tourism. Some tourism activities like travel agent, tour operator, and other reservation activities are a part of the broad category administrative and support service activities and other professional activities. As per the Second Tourism Satellite Account of India (TSA), the contribution of tourism to total GDP

**Table 7.7 : Tourism Performance: International Comparison in 2013**

Country	International Tourist Arrivals			International Tourism Receipts		
	Numbers (in million)	Share (%)	Growth (%)	Value (US \$ billion)	Share (%)	Growth (%)
France	84.7	7.8	2.0	56.7	4.7	5.6
US	69.8	6.4	4.7	173.1	14.5	7.4
Spain	60.7	5.6	5.6	60.4	5.1	7.3
Turkey	37.8	3.5	5.9	28.0	2.3	10.7
Thailand	26.5	2.4	18.8	42.1	3.5	24.6
Malaysia	25.7	2.4	2.7	21.5	1.8	6.4
Singapore	11.9	1.1	7.2	19.1	1.6	1.1
Indonesia	8.8	0.8	9.4	9.1	0.8	9.5
Vietnam	7.6	0.7	10.6	7.5	0.6	10.3
India	6.8	0.6	4.1	18.4	1.5	4.0
World	1087	100.0	4.8	1195	100.0	7.2

Source : UNWTO.

during 2012-13 was 6.9 per cent (3.7 per cent direct and 3.1 per cent indirect) and to total employment 12.4 per cent (5.3 per cent direct and 7.0 per cent indirect). After poor foreign exchange earnings (FEE) growth in dollar terms at 4.0 per cent, despite growing foreign tourist arrivals at 5.9 per cent, in 2013, there was an increase in growth of both foreign tourist arrivals (7.1 per cent) and FEEs (6.6 per cent) in 2014.

7.22 In Budget 2014-15, the government announced several measures for boosting tourism like streamlining of some service tax bottlenecks and focused effort for the development of a global-scale Buddhist circuit and cleaning of the Ganga along with creation of world class amenities to enhance the spiritual experience along the holy river. Further, easing of the Indian tourism visa regime through the execution of tourist visa on arrival enabled by electronic travel authorization (ETA) for forty-three countries will provide a major boost to tourism.

### Some Transport-related Services

#### *Shipping*

7.23 Shipping is an important indicator of both commodity and services trade of any country. Around 95 per cent of India's trade by volume and 68 per cent in terms of value is transported by

sea. As on 31 December 2014, India had a fleet strength of 1209 ships with gross tonnage (GT) of 10.3 million, with the public-sector Shipping Corporation of India (SCI) having the largest share of around 31 per cent. Of this, around 358 ships with 9.1 million GT cater to India's overseas trade and the rest to coastal trade. Despite having one of the largest merchant shipping fleets among developing countries, India's share in total world dead weight tonnage (DWT) is only 1.1 per cent as on 1 January 2014. In 2013, as per UNCTAD, India with 10.7 million twenty-foot equivalent units of container (TEUs) and a world share of 1.6 per cent ranked eighth among developing countries in terms of container ship operations.

7.24 India continues to be a leading ship-breaking destination. It topped the list of ship-recycling countries in 2014 (January to October) with a world share of 32 per cent, scrapping 234 ships of 7.98 million DWT as per the ISL Shipping Statistics and Market Review. India is also a major supplier of seafarers to the world. According to BIMCO/ISF Manpower Update 2010-2014, India supplied 60,000 crew (fresh seamen) and 44,500 officers in 2014.

7.25 The shipping sector has been plagued by economic hardships since 2008. In 2014, all segments of shipping saw intermittent spikes but

**Table 7.8 : Some Performance Indicators of Ports in India**

Indicators	2000-01	2010-11	2012-13	2013-14	(Apr. to Nov)
					2014-15
Average turnaround time (days)	4.2	2.7	2.6(0.0)	2.3(-0.3)	2.1(-0.1)
Average pre-berthing time (days)	1.2	0.5	0.5(0.0)	0.3(-0.2)	0.2(-0.1)
Average output per ship berth day (in tonnes)	6961	9140	11786(-1287)	12509(723)	14326(1817)

Source : Ministry of Shipping.

Note : Changes from previous years are given in parentheses.

there was no secular uptrend in any of them. Further, internationally deliveries of new ships are slated in 2015 which could dampen shipping freight rates even more. The Baltic Dry Index, the barometer of merchandise trade as well as shipping services, which had peaked to 11,793 on 20 May 2008 has been in the lower range since then and is in the red at 530 as on 13 February 2015.

7.26 There has also been a sharp decline in the share of Indian ships in the carriage of India's overseas trade from about 40 per cent in the late 1980s to 9.1 per cent in 2012-13. The existing Indian fleet is also ageing, with the average age increasing from 15 years in 1999 to 17.7 as on 1 October 2014 (43.1 per cent of the fleet is over 20 years old and 10.7 per cent in the 16-19 age group). Thus there is urgent need to increase India's shipping fleet.

7.27 Recognizing the need to encourage the growth of Indian tonnage, several policy initiatives were taken which include allowing Indian shipping companies to acquire ships abroad and flag them in the country of their convenience; allowing access to cheaper finance abroad; exemption from customs and central excise duty leviable on bunker fuels used in Indian flag vessels for transportation of export and import items and on empty containers between two or more ports in India; and elimination of registration requirement of ship repair units (SRUs) with the Director General of Shipping.

### Port Services

7.28 The cargo traffic of Indian ports increased by 4.5 per cent to 975.7 million tonnes in 2013-14 and by 6.8 per cent in (April-December) 2014-15 (see Chapter 6). In the Maritime Agenda, a

target of 3130 million tonnes (MT) port capacity has been set for the year 2020 with around ₹ 2,96,000 crore investment. More than 50 per cent of this capacity is to be created in the non-major ports. FDI up to 100 per cent under automatic route is permitted for construction and maintenance of ports. In 2013-14, 16 public private partnership (PPP) projects were awarded at an estimated cost of ₹ 18,640.8 crore for capacity addition of 159.7 MT in the major ports comprising construction of berths and terminals and mechanization of existing berths.

7.29 The three ports-related performance indicators showed continued improvement with the average turnaround time and average pre-berthing detention time falling to 2.1 days and 0.2 day respectively and the average output per ship berth day improving to 14,326 tonnes in 2014-15 (April-November) (Table 7.8). The improvement in turnaround time and pre-berthing detention time could partly be due to mechanization and systemic improvements in ports and partly to lower volume handled in some ports on account of global downturn. However, the improvement in average output per ship berth day indicates that the performance parameters of Indian ports are also improving

### Some Professional Services

#### IT and ITeS

7.30 Software development and information technology enabled services (ITeS) including business process management (BPM), software engineering R & D services and product development has emerged as one of the most dynamic and vibrant sectors in India's economy.

It is the single largest contributor to services exports. As per AT Kearney's Global Services Location Index 2014, India ranked first and remains the pre-eminent destination for offshore services, with excellence in IT, BPO, and voice services. The sector continues to be one of the largest employers in the country, directly employing nearly 3.5 million people as per the National Association of Software and Service Companies (NASSCOM).

7.31 As per the Central Statistics Office (CSO), computer and related services with a share of 3.3 per cent in India's GDP grew by 14.4 per cent in 2013-14. As per NASSCOM's estimate the revenue of the IT-BPM industry at US\$119 billion grew by 12 per cent in 2014-15, while the export market at US\$ 98 billion grew by 12.3 per cent over the previous year. The BPM sector is being driven by greater automation, expanding omni-channel presence, and application of analytics across the entire value chain. The year also witnessed hyper-growth in the technology start-up and software product landscape, India ranking as the fourth largest start-up hub in the world with over 3100 start-ups in the country. The domestic IT-BPM market is estimated at US\$ 20.9 billion in 2014-15, with a growth of 10 per cent. Software products and services revenues for 2015-16 is projected to grow at 12-14 per cent to reach US\$ 133-136 billion as per NASSCOM. Export revenues are projected to grow by 12 to 14 per cent to reach US\$ 110-112 billion and domestic revenues by 10-15 per cent to reach US\$ 23-24 billion during 2015-16.

7.32 Recognizing the need for greater penetration of IT services domestically, in Budget 2014-15 Digital India has been envisioned as an ambitious umbrella programme to prepare India for knowledge-based transformation. This would ensure broadband connectivity at village level, improved access to services through IT-enabled platforms, greater transparency in government processes and increased indigenous production of IT hardware and software. One of the important components of this programme is people's empowerment through availability of entitlements

on the cloud, coupled with Aadhaar Authentication Platform. A National Rural Internet and Technology Mission for services in villages and schools and E-Kranti for government service delivery are other initiatives. Recognizing the importance of IT, the government's Make in India mission has included IT and BPM among the twenty-five focus sectors.

### *Research and Development Services*

7.33 The Research and Development (R&D) sector has been growing consistently in double digits in the last few years with growth at 20.8 per cent in 2012-13 (old method). Professional, scientific and technical activities including R&D grew by 14.0 per cent in 2013-14 (new method). According to Global R&D Service Providers (GSPR) Rating 2014, a report by Zinnov Management Consulting, India's R&D globalization and services market is set to double by 2020 to US\$ 38 billion. The study estimates the overall addressable R&D globalization and services opportunity at US\$ 170 billion as of 2014. Currently only US\$ 55 billion of this opportunity is addressed globally. India's share of the addressed market is 33 per cent with in-house R&D centers contributing US\$ 11.3 billion worth of services to their parent companies.

7.34 According to the Global Competitiveness Report 2014-15, India's capacity for innovation has been lower than that of many countries like the USA, UK, South Korea, and even other BRICS countries (Brazil, Russia, India, China, and South Africa) except Russia (Table 7.9). Even in quality of scientific research institutions, India scores lower than China, Brazil, and South Africa. This is also exhibited through its poor score on university-industry collaboration on R&D as compared to some other BRICS nations like China and South Africa. In terms of patents granted per million population, India fares badly compared to other BRICS countries. In terms of company spending on R & D also India is far below China. Only in terms of availability of scientists and engineers, India scores better or is equal to other BRICS countries.

**Table 7.9 : Global Competitiveness Index: R & D Innovation**

Country	Capacity for innovation		Quality of scientific research institutions		Company spending on R&D		University – Industry collaboration on R&D		Availability of scientists and engineers		PCT patents granted/ million population	
	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank
USA	5.9	2	6.1	4	5.5	4	5.8	2	5.3	5	149.8	11
UK	5.3	10	6.3	2	4.8	14	5.7	4	4.8	22	89.1	18
South Korea	4.7	24	5.0	27	4.5	20	4.6	26	4.4	42	201.5	8
South Africa	4.3	35	4.7	34	3.4	48	4.5	31	3.5	102	6.5	45
China	4.2	40	4.3	39	4.3	23	4.4	32	4.4	43	11.7	34
Brazil	4.1	44	4.0	50	3.5	43	3.8	54	3.3	114	3.2	50
India	4.0	48	4.0	52	3.8	30	3.9	50	4.4	45	1.5	61
Russia	3.8	66	4.0	56	3.2	62	3.6	67	4.1	70	7.1	41

Source : Global Competitiveness Report 2014-15, World Economic Forum.

Note : PCT- Patent Cooperation Treaty.

### Consultancy Services

7.35 Consultancy services are emerging as one of the fastest growing services in India cutting across different sectors with some overlapping. According to Plunkett Research, global consulting industry revenues (including human resources [HR], IT, strategy, operations, management, and business advisory services) increased to an estimated \$431 billion in 2014 compared to US\$ 415 billion during the previous year. India's outsourcing and consulting industry is estimated at US\$ 86.4 billion in 2014, accounting for almost 20 per cent of global consulting industry revenue, and is projected to reach US\$ 99.0 billion in 2015.

7.36 India's emergence as one of the fastest growing consultancy markets worldwide is largely attributable to increased investment activities due to liberalization of FDI, entry of many new players into the Indian market and low cost sourcing. Indian consultants have good expertise particularly in engineering consultancy which could be leveraged to enhance consultancy exports.

### Real Estate and Housing

7.37 Real estate and ownership of dwelling constitute 7.8 per cent of India's GDP in 2013-14. Both domestic and global slowdown affected this sector with growth decelerating from 7.6 per cent in 2012-13 to 6.0 per cent in 2013-14 and FDI in

the real estate sector falling to US\$ 703 million in the period April-November 2014.

7.38 House prices have increased over the years in many cities and towns as per the National Housing Bank's RESIDEX index of residential prices in India. In 2014, out of 26 cities, 17 witnessed increase in prices over 2013 with the maximum increase observed in Chennai (17 per cent) followed by Ahmedabad (15 per cent), while 7 saw decline, with the maximum fall witnessed in Meerut (-16 per cent) followed by Chandigarh (-8 per cent).

7.39 The widening gap between demand and supply of housing units and affordable housing finance solutions is a major policy concern for India. At present urban housing shortage is 18.8 million units of which 95.6 per cent is in economically weaker sections (EWS)/low income group (LIG) segments and requires huge financial investment to overcome. Institutional credit for housing investment is well below that in countries like China, Thailand, and Malaysia though growing at a CAGR of about 19 per cent per annum. Procedural delay is another major constraint in this sector. According to the World Bank's 'Doing Business 2015', India ranked 184<sup>th</sup> (out of 189 economies) in terms of construction permits, requiring on an average 27 procedures to get permits as compared to an average of 14 in South

Asia and 12 in OECD (Organization for Economic Cooperation and Development) countries.

7.40 Several policy initiatives taken in 2013-14 to help this sector include the amendment of the FDI policy, thereby reducing the minimum floor area to 20,000 sq. m from the earlier 50,000 sq.m and bringing down the minimum capital requirement to US\$ 5 million from US\$ 10 million. Budget 2014-15 also announced setting up of Real Estate Investment Trusts (REITs) and SEBI has approved the REITs regulation. In order to encourage savings, the deduction limit on housing loan interest for self-occupied property was also increased to ₹ 2 lakh from the earlier ₹ 1.5 lakh in Budget 2014-15. In order to push development of affordable housing and achieve the target of housing for all by 2022, the Reserve Bank of India (RBI) relaxed norms for issue of long-term bonds by banks for financing affordable housing.

### Internal Trade

7.41 The ₹ 11,47,274 crore trade and repair services sector with a share of 11.0 per cent in GDP, grew by 14.3 per cent in 2013-14. Trade is the major item in this category as the share of repair services in this category is just 6-7 per cent. As per the AT Kearney's Global Retail Development Index (GRDI), India's retail trade ranking slipped further to twentieth in 2014 from fourteenth in 2013. The retail sector was affected in 2013 by high consumer price inflation, currency fluctuations, and strict FDI policies. However, India remains an attractive long-term retail destination for several reasons, including its large population, 58.3 per cent of which is below 30 years and 31.1 per cent of which lives in urban areas with rising disposable incomes. Migration from traditional stores to modern retail continues, though the latter accounts for only 8 per cent of the total market.

7.42 India's e-commerce market is expected to grow by more than 50 per cent in the next five years. Inventory management, logistics planning, and resource availability are important hurdles for online retail in India. Consumer safeguard being another concern for consumers of e-commerce, the government proposes including sufficient provisions in the ongoing amendment to the Consumer Protection Act 1986.

### Media and Entertainment Services

7.43 The Indian media and entertainment industry comprises various segments which include television, print, films, radio, music, animation, gaming and visual effects, and digital advertising. According to a report by FICCI-KPMG, the Indian media and entertainment industry grew by 11.8 per cent to ₹ 918 billion in 2013 and is projected to grow at a CAGR of 14.2 per cent to reach ₹ 1786 billion by 2018. Digital advertising and gaming are projected to drive the growth of this sector in the coming years. With ₹ 18.4 billion inflows, this sector contributed 1.6 per cent of the total FDI inflows in India during April 2000-November 2014.

7.44 With 161 million TV households, India is the world's third largest TV market after China and the USA. There are about 826 satellite television channels, 86 teleports, 243 FM radio channels, and 179 community radio stations operating in India. India's broadcasting distribution network comprises 6000 multi system operators (MSOs), around 60,000 local cable operators (LCOs), and 7 direct to home (DTH) operators. The Government has embarked on an ambitious exercise of digitizing its cable network in four phases leading to complete switch off of analog TV services by 31 December 2016. India also has a liberalized FDI regime for the broadcasting sector where 26 per cent FDI is allowed in content and 74 per cent in various carriage services like DTH, HITS (headend in the sky).

7.45 India is emerging as the new favourite of international studios, with 100 per cent FDI permitted in the film sector. Disney, Fox, Sony, and Warner Brothers have entered into co-production and distribution deals with domestic production houses. India has co-production treaties with ten countries. During the year 2014-15 (till December 2014), the government has accorded permission for film shooting in India to twenty-one foreign production houses.

7.46 To sum up, the performance of the services sector in recent years has been reasonably good, despite the difficult international and domestic situation. However, the performance of different sectors varied.